



**COUNTY OF SAN LUIS OBISPO
DEPARTMENT OF PLANNING AND BUILDING
STAFF REPORT**

PLANNING COMMISSION

*Promoting the wise use of land
Helping build great communities*

MEETING DATE September 10, 2015	CONTACT/PHONE John McKenzie, 805-781-5452	APPLICANT Freeport-McMoRan	FILE NO. DRC2015-00002
SUBJECT Request by Freeport-McMoRan Oil & Gas for a Conditional Use Permit (CUP) to amend the previous CUP to extend the amount of time allowed to drill the previously approved Phase IV oil wells (D010386D). This request would extend the current limit for an additional 3 years for approximately 31 oil wells not yet installed. The project is located at 1821 Price Canyon Road (San Luis Obispo) on the east and west sides of Price Canyon Road, approximately 2.7 miles north of the City of Pismo Beach, in the San Luis Bay Inland sub area South, South County planning area .			
RECOMMENDED ACTION 1. Approve Conditional Use Permit DRC2015-00002 based on the findings listed in Exhibit A and the conditions listed in Exhibit B			
ENVIRONMENTAL DETERMINATION The Environmental Coordinator found that the previously certified Final Environmental Impact Report (FEIR) is adequate for the purposes of compliance with CEQA because no substantial changes are proposed in the project which will require major revision of the previously certified FEIR, no substantial changes occur with respect to the circumstance under which the project is undertaken which will require major revision of the previously certified FEIR, and no new information of substantial importance has been identified which was not known at the time that the previous FEIR was certified.			
LAND USE CATEGORY Agriculture	COMBINING DESIGNATION Energy Extractive Area	ASSESSOR PARCEL NUMBER 044-201-002, 044-241-001	SUPERVISOR DISTRICT(S) 3
PLANNING AREA STANDARDS: Not applicable			
EXISTING USES: Developed oil field operation with temporary offices, active oil wells, water treatment facility, above ground piping, roads, accessory structures; non-developed areas include Pismo Creek, oak woodland and chaparral			
SURROUNDING LAND USE CATEGORIES AND USES: <i>North:</i> Rural Lands, Agriculture; Undeveloped, several residences <i>East:</i> Rural Lands, Agriculture; Undeveloped, several residences <i>South:</i> Rural Lands, Agriculture; Undeveloped, several residences <i>West:</i> Rural Lands, Agriculture; Vineyards, undeveloped, several residences			
ADDITIONAL INFORMATION MAY BE OBTAINED BY CONTACTING THE DEPARTMENT OF PLANNING & BUILDING AT: COUNTY GOVERNMENT CENTER γ SAN LUIS OBISPO γ CALIFORNIA 93408 γ (805) 781-5600 γ FAX: (805) 781-1242			

OTHER AGENCY / ADVISORY GROUP INVOLVEMENT: The project was referred to: County: Public Works, Environmental Health, Agricultural Commissioner, Air Pollution Control District, General Services, County Counsel, CalFire; State: Caltrans, Regional Water Quality Control Board, Department of Fish and Wildlife, Division of Oil, Gas & Geothermal Resources; Other: City of Pismo Beach	
TOPOGRAPHY: Nearly level to steeply sloping	VEGETATION: Oak woodland, chaparral, riparian, ornamental landscaping
PROPOSED SERVICES: Water supply: Existing On-site well Sewage Disposal: Existing individual septic system Fire Protection: CalFire	ACCEPTANCE DATE: June 3, 2015

PROJECT HISTORY

The project is located in the existing Arroyo Grande Oilfield, located on both sides of Price Canyon Road. Oil exploration and extraction in the Arroyo Grande Oilfield has existed for approximately 100 years. The current oil field development has received several previous land use approvals that have been subject to extensive environmental analysis. The most recent approval for field development was for Phase IV, which included development of 95 wells. Approximately 3/5ths of these wells have been drilled. The original approval included Condition #4, which allowed for a 10-year drilling period. The end of this 10-year period expired on August 9, 2015.

The following environmental documents have been prepared as a part of approving the initial and subsequent phases of the project currently in operation:

- 1978 Final EIR prepared for Phase I (Arroyo Grande Thermal Project [Teal Petroleum]) for 54 wells;
- 1981 Final EIR prepared for Phase II (Arroyo Grande Thermal Project Grace Petroleum Corp. Development Plan) for 40 additional wells and steam generator; this document included conceptual approval of Phases III, IV and V for 165 future wells;
- 1984 Final EIR American Pacific International, Inc. AG Oil Field for eight additional wells and tank facility;
- 1994 Final Supplemental EIR prepared for Phase III (Shell Western Development Plan) for 65 additional wells and three steam generators;
- 2004 Final EIR prepared for Phase IV (Plains Exploration and Production Phase IV Development Plan for 95 additional wells, 30 injection wells, and three steam generators;
- 2005 EIR Addendum prepared (on 2004 FEIR)(Plains Exploration and Production Phase IV Conditional Use Permit - D010386D) for a water reclamation system.

CURRENT OPERATION

The current operation includes about 165 active producing wells and up to 40 active injector wells. Injector wells are used for either injecting 1) steam into the oil formation to improve viscosity and ease of crude oil extraction, or 2) waste fluids near the oil formation, such as brine or liquid by products from the drilling or water reclamation processes. Once crude oil is extracted, the crude oil portion is separated from the water portion (which is then called 'produced water'). The produced water is then reinjected back into the oil formation either as water or steam via the injector wells. With the construction of a water reclamation system some of this produced water is treated and released to the surface (Pismo Creek). Oil extraction efforts also extract or produce natural gas (methane) which is captured by a vapor recovery system and then either compressed, reinjected or burned off. Two large steam generators have been recently installed. Currently about 1000 barrels of oil a day are produced and transported by truck (7 daily trips) to the Conoco Phillips Battles pump station in Santa Maria. The current

operation employs approximately 26 regular employees. An ongoing component of this operation includes the closure of wells that no longer produce commercially viable amounts of oil.

Modular structures currently provide oilfield operations' offices and meeting areas. A permanent office/ meeting room facility has been approved but not yet built. Crude oil is currently transported offsite via truck during non-peak periods. A new connecting pipeline has been approved, which once constructed will replace the trucks in transporting the crude to an oil processing facility.

The Phase IV approval allowed for 95 oil wells. To date, 64 of these have been installed. Some of these wells have been installed as Class II injection wells to return fluids back into or near the oil formation.

A number of facility-wide plans are in place to insure adequate conformance to Phase IV conditions of approval, as well as other regulations. The most relevant of these plans include: Storm Water Prevention Plan, Fire Safety Plan, Weed Management Plan, Odor Plan, Annual Sensitive Species Surveys, Sentry Wells annual reports, Emergency Response Plan, Hazardous Business Plan, Spill Prevention and Control Plan. As new well permits are approved, these plans are reviewed for adequacy, and when needed, amended to include what is approved in these new permits.

INJECTOR WELLS

Recently, an inconsistency with Federal water regulations has been noted regarding some of the oilfield injector wells used to dispose of water and fluids produced during the extraction process. California Division of Oil, Gas and Geothermal Resources (DOGGR), under a memorandum of agreement with the USEPA, administers the Class II Underground Injection Control (UIC) Program, which is part of the Safe Drinking Water Act. Class II injection wells can only inject in to zones that have approved aquifer exemption designations from the USEPA. USEPA applies a broad definition to the term 'aquifer' where it includes any underground geological formation or group of formations that contain water. Oil reservoirs that contain associated water are considered aquifers under this definition, even though they are not considered potable water sources.

A 1982 memorandum of agreement with the USEPA provided an aquifer exemption for specific areas of the Arroyo Grande Oil Field (AGOF). The boundaries of the exemption area were based on the known productive boundaries of the oil field at the time.

While conducting an internal audit of its UIC program in 2011, DOGGR became aware that some Class II injection wells were possibly injecting into zones and areas that had not been formally exempted by the USEPA. Further review by DOGGR determined that historic permitting practices by the district offices had presumed that the aquifer exemption boundaries expanded as the productive boundaries of individual oil fields expanded over time and no formal revision by USEPA was necessary.

In 2012, the USEPA released the findings of an audit it had conducted on DOGGR's management of the UIC program at the request of DOGGR management. The audit confirmed that, contrary to historic permitting practices by the DOGGR district offices, formal approval by the USEPA was necessary in order to formally revise the aquifer exemption boundaries of an oil field. In all, DOGGR's review identified more than 2,500 injection wells in California that had been permitted outside the boundaries of the areas formally exempted in 1982.

At the Arroyo Grande Oil field (AGOF), DOGGR's review identified 76 steam injection wells and 14 water disposal wells that had been permitted outside of the productive boundaries that are

covered by the 1982 USEPA aquifer exemption. Currently, only eight of the 14 water disposal wells identified in DOGGR's review are in use.

These eight disposal wells are used to reinject the reject water from the Water Reclamation Facility (WRF). FM O&G is currently working with DOGGR, the State Water Resources Control Board, and the Central Coast Regional Water Quality Control Board to obtain an updated aquifer exemption from the USEPA for the active oil field areas. An application supporting formal revision of the aquifer exemption boundaries, based on the currently known productive boundaries of the oil field, was submitted by FM O&G to the agencies in October, 2014.

Under the regulations proposed by DOGGR, unless there is an aquifer exemption for the aquifer or the portion of the aquifer where injection is occurring, some of the Class II injection wells that are outside of the USEPA approved aquifer exemption area at the AGOF would have to cease injection by October 15, 2015. The remaining Class II injection wells outside of the USEPA approved aquifer exemption area would have to cease injection by February 15, 2017.

County Action. A condition has been included with this permit request to recognize this situation. None of the remaining 31 oil wells that that would be used as Class II injection wells could be drilled outside of the approved exemption area. However, should the USEPA, RWCQB and DOGGR recognize and approve an expansion of this exemption area, any new Class II injection well could be allowed within these expanded areas.

PROPOSED PHASE V DEVELOPMENT

While not a part of this request, the applicant has requested that the County consider a new Phase V, which, if approved would allow for up to 450 new oil wells. An Environmental Impact Report is currently underway evaluating the impacts of this request to expand the oilfield extraction. Once a Final EIR has been completed, this Phase V will be scheduled for a hearing with the Planning Commission.

ORDINANCE COMPLIANCE

As proposed, the project will have no new or additional impacts to the geographic area of the oil field above what was approved in Phase IV. Furthermore, all remaining oil wells to be installed that were previously approved will still be subject to all of the existing Phase IV Conditions of Approval, and other government agency oversight. Lastly, there have been no changes to County ordinance (LUO Chapter 22.34 - Petroleum Resource Development) relating to oil field development. Therefore, no additional discussion needed on Ordinance Compliance.

PROPOSED AMENDMENT

The effective approval date of the Phase IV development was August 9, 2005. The Condition of Approval (COA) #4 says that new well drilling shall not be allowed to extend beyond 10 years from the Phase IV approval date, or August 9, 2015. On a separate but related note, the applicant is currently pursuing approval of Phase V, which would allow for up to an additional 450 wells. Should this request be approved, these remaining Phase IV wells would be integrated into that approval.

As proposed, approval the amended Condition #4 will extend this drilling period an additional three years (or August 9, 2018) for the remaining 31 oil wells not yet installed but approved through the Phase IV development.

COMBINING DESIGNATIONS: The project is within the Energy Extraction (EX) Combining Designation. The intent of this designation is to protect the oil resources in this area. As a replacement of temporary offices with a permanent facility serving the existing oil field, this request is consistent with this designation.

MAJOR ISSUES: None - Approval of this amendment will allow a limited amount of additional time to drill oil wells that have already been approved under Phase IV (D010386D).

COMMUNITY ADVISORY GROUP COMMENTS:

AGENCY REVIEW:

Public Works – No comment at this time.

Environmental Health – No comment at this time.

Ag Commissioner – No comment at this time.

CalFire – No comment at this time.

APCD – No comment at this time.

CA Department of Fish and Wildlife – No comment at this time.

Cal Trans – No comment at this time.

RWQCB – No comment at this time.

City of Pismo Beach – No comment at this time.

Division of Oil, Gas and Geothermal Resources - No comment at this time.

LEGAL LOT STATUS: *(always include)*

The 2 lots were legally created by a deed transfer at a time when that was a legal method of creating lots and verified by certificate of compliance.

044-201-002 – certified by APV.C04-554 Lot 7

044-241-001 – certified by APV.C04-554 Lot 1

Staff report prepared by John McKenzie and reviewed by Steve McMasters.

List of Exhibits

Exhibit A – Findings

Exhibit B – Conditions of Approval

Exhibit C – Conditions of Approval for D010386D

Exhibit D - Graphics